

**VALUE AND VISION OF HUMAN RESOURCE MANAGEMENT
IN KOREAN COMPANIES:
THE CASE OF SAMSUNG HUNGARY ELECTRO-MECHANICS**

By

Regina Remenyi

THESIS

Submitted to

**KDI School of Public Policy and Management
in partial fulfilment of the requirements
for the degree of**

MASTERS OF BUSINESS ADMINISTRATION

2002

**VALUE AND VISION OF HUMAN RESOURCE MANAGEMENT
IN KOREAN COMPANIES:
THE CASE OF SAMSUNG HUNGARY ELECTRO-MECHANICS**

By

Regina Remenyi

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfilment of the requirements

for the degree of

MASTERS OF BUSINESS ADMINISTRATION

2002

Prof. Anthony Michell

ACKNOWLEDGEMENT

I would, first of all, like to thank the KDI School of Public Policy and Management, for giving me a one-year graduate scholarship and thereby an invaluable chance to broaden my knowledge within the field of management studies.

I also want to say thank you to all my professors, for their excellent guidance and help throughout these months, and for their unwearied work with which they taught us. The knowledge and experience I gained at KDI School is priceless, and I can only wish to be able to return something in the future for the people and the school I loved so much.

Besides, I want to thank the employees of Samsung Hungary Electro-mechanics for their whole-hearted support in answering all my questions, and helping me conceptualise a picture of SHEM in its integrity, even though the company's management did not authorise an official employee satisfaction survey.

INTRODUCTION

The scope of this paper is to try to illustrate that South Korean (henceforth, Korean) companies still put the emphasis on technology and quality rather than human resource management, and human capital. The aim is to show that these highly successful companies could easily be market leaders if they started valuing their most precious assets: their employees.

The paper consists of four major sections. The first section tries to illustrate the importance of human resource management in the twenty-first century, and the vision of human capital as one of the most important assets of any organisation.

The next one will introduce the Korean management system, emphasising the differences in human resource management – its major sources of influence, organisational structure, decision-making process, compensation and incentives, staffing and retaining policies - with the help of the statistics and survey results of the Korea Labour Institute.

The third one gives you an analysis of a Korean company - Samsung Hungary Electro-mechanics – with the help of personal interviews on employee satisfaction.

The final section, will try to evaluate the findings of the interviews and give a possible future solution for making the company even more successful, with the help of adequate human resource management techniques.

THE IMPORTANCE OF HUMAN RESOURCE MANAGEMENT

Throughout history, the most important factor of success in the business world has always been shifting. As soon as industrialisation started and mass production was introduced, quantity was the most important factor of success. Those who could produce more within the same period of time and also with lower cost, soon ruled the world of business, and overcame the famous craftsmen of Europe. Later on, manufacturers had to realise, that quality was equally or even more important than quantity and firms started to emphasise the quality of their products with the help of the newly emerging management tool, marketing. Soon after, in the second half of the twentieth century, technology became the dominant factor of success as the Japanese started to miniaturise the world. However, the technological improvements were no longer so hard to imitate as the twenty-first century was approaching and companies had to face an immense competition. As the century closed, the world became smaller. Shortly, markets opened up with the help of globalisation and customers have never been so easy to reach with the arrival of the Information Age.

The world is now undergoing a digital revolution, which is the third social change in human history. It is underway a definitive change from the industrial age to the information and knowledge age. Now knowledge and information are regarded as the most important resources. We live in a world of e-mail, cyber communities and Web pages, which make this world more interconnected as ever before. Internet and information brings people closer to each other but these relationships are shallow and impersonal.

Everything is information and information is everything, both for customer and supplier. According to Anne Busquet the President of American Express's Relationship Services, there has never been a better time to be a customer, or a more demanding time to be a company. She claims that customers are in control today, as they have access to more information than ever before, and they can retrieve it fast, almost immediately, with the help of the Internet and other modern communication tools. Needs are up and prices are down. Both customers and suppliers have a stronger bargaining power, which creates stronger competition in such a fast pace that some companies are unable to keep up with it and fall out of the race.

Recent shifts in global economic patterns driven largely by the information technology revolution are changing the nature of competition among companies and nations. Comparative advantages are increasingly based on innovation and knowledge rather than traditional factors of capital, technology and cheap labour. Globalisation itself is highly responsible for the increased competition, by enabling companies to enter new markets, reach new customer segments and move their manufacturing sites to third world countries with cheap resources and labour.

Up to now, it required a lot of capital, time and networking skill to harmonise the work of overseas offices and manufacturing sites, to gather information about the targeted country, customer-segment, the business environment or the competition. But with the coming of the Information Age, we can find companies with offices around the world, working jointly and autonomously at the same time, around the clock. With the help of new, enormously powerful tools that speed up transactions as well as the delivery of services and information, companies can eliminate the time constraints and work more effectively. The sun never sets on knowledge work. The new economy is open for business, 24 hours a day, 7 days a week

With the pace of globalisation and global competition, the biggest challenge facing companies in the 21st century is to differentiate themselves from everyone else on the market and by doing so, bring over customers.

Companies usually try to maintain or increase their market share with the help of cost advantage or differentiation as their competitive strategy, but sooner or later they realise that cost cuttings, quality of the product or service, the technology or most kind of differentiations are easy and likely to be copied by their competitors. Since customers are looking for something unique or genuine, something cheap but of high quality and they are more and more willing to pay extra for better quality or service.

How will companies be able to compete and serve such extent and high expectations in the possibly best, easiest and yet cheapest way? It is almost impossible.

Technology is developing with such a high speed that by the time a company markets its new, outstanding product or service, another company has already developed it further and came up with an idea that is much better, nicer, cheaper, more useful, more comfortable or is simply much closer. But customers can be up to date with this unbelievable pace of technology development and amount of information, with the help of new communications tools.

The main instrument of differentiation used to be quality and cost control, but as costs cannot be decreased forever because the profit should as a minimum cover the fix costs of the company and quality cannot be raised above one hundred percent either, a company which wants to stay in the race for the customer and market share, has to search for something superior, more diverse.

If it is not technology, price or quality, what should it be? What will the competitive advantage be in this new millennium? Many have known the answer for long, but few have applied it. The answer is human capital.

When a company cannot improve anything more on its product, it has to improve its efficiency and service. The 21st century is the century of the customer, and the customer is more and more demanding. But with the right product or service and the right mix of people, it will be simple to please the customer.

The right people at the right organisation, in the right position doing the right job. Would it be so easy to stay in competition? It seems so, as more and more companies try to get young and talented people, all around the world. The war for talent has begun.

The War for Talent in the 21st Century

"Globalisation has changed us into a company that searches the world, not just to sell or to source, but to find intellectual capital — the world's best talent and greatest ideas."
(Jack Welch, former CEO of GE)

The 20th century experienced more change within the field of “worker’s management” than the centuries preceding it. From the universal principles of efficiency in the early 1900s to human relations management dealing with motivation of the 1930s when the worker as slave mentality had disappeared, throughout strategic planning and diversification efforts, to the just-in-time management of the 1980s with benchmarking and reengineering came the 1990s when the Industrial Age was finally over and the emphasis was on management information and intelligence, knowledge acquisition and rapid developments of information technology. The so-called Information Age however did not last long, as the implementation of the concepts fell far short of expectations. These concepts required a totally new way of viewing the business. Traditional approaches failed and only a few companies realised what was needed for the success of these concepts.

As information in the 21st century is widely available, it is not enough by itself to help companies compete their opponents in the newly emerged global competition.

Having the information is one thing, but knowing what to do with it is another. The process of evaluation is crucial when one has such an enormous amount of information as a company in this new century. There must be a filter screening the flow of information, analysing it by sorting out the pieces needed. Otherwise it would be easy to get lost in the information-stream with no boundaries. But what is more important, that even by analysing the information it is almost impossible to get an accurate data, which would help the managers make their decision. Therefore, intelligence and human capital is inevitable in the organisation of the new economy. As no technology, quality or information can be the base of competition any more, one has to read between the lines to be able to predict the future and 20 percent of information will have to make 80 percent of the business plan.

Increased workforce mobility has resulted in a growing gap in labour supply and demand as well as an increased availability of employment information. People are growing older while new generations bring new expectations.

These changes have made high performers more valuable for many companies that have been continuously focusing on cost management to win the battle. But now high performers know how valuable they are, so many companies are eager to master talent management in order not to become the loser in the talent war.

Expanding information networks are changing the nature of business and society through low cost Internet applications such as electronic commerce, distance education, just-in-time learning, on-the-job performance support, electronic global marketing, telecommuting, and virtual communities. These technologies are becoming the most critical, most persuading, and most rapidly developing factors of competitive advantage in the world today.

Going global not only means the growth of the market place and profit, but also the growth of competition. Technology, organisational architecture, differentiation of services and products can all be easily copied. What is left is the most precious value of the organisation, its employees, their skills and experience and the organisational culture in which the employees, as messengers, work.

Having the right mix of the essential skills, experiences and culture of the employees can be critical for the company when it wants to have a competitive advantage, to be able to cope with and succeed over its competitors.

Human Capital Development: The Key Ingredient for Success

The critical factor for competing within this changing global economic arena is a human resource pool with technical competence and adaptive learning skills to support the use of modern technologies. The technological shifts are generating a critical shortage of workers and managers with the skills needed for the technology and telecommunications age. Governments must respond aggressively by developing the human capital needed for both traditional and knowledge-based services and industries.

Reducing this shortage of skilled and educated workers requires a strong education system that continuously re-evaluates coursework and curriculum to ensure that the skills being developed are relevant to emerging workforce requirements.

The benefits of human capital development are comprehensive and influential. Besides the quantitative returns to investment in education, there are extraordinary qualitative societal benefits, which cannot be mathematically measured. These include higher levels of education, training, and computer literacy as well as skills, which decrease unemployment, resulting in reduced need for government spending on subsidies, welfare programs, and crime prevention. Effective education programs increase personal income, widen the tax base and increase tax revenues, while educated, skilled workforce attracts foreign and local investment and development of human capital-intensive industries and service sectors. But above all, management and worker training increase corporate profitability and strength.

Leveraging intellectual assets as a business strategy is a relatively new concept for the corporate world, and companies that have mastered it have found that it is capable of generating substantial income for themselves and their investors. Identifying the company's intellectual assets is just part of the process. One also has to develop a strategy to manage them, and then a business plan to capitalise on them.

Today, the New Economy runs on technology. Companies that learn to develop manage and exchange technology will succeed in this business environment. The company's intellectual capital comprises several components including employee experience and knowledge, the ability to innovate, R&D capabilities, and intellectual assets such as know-how, patents, trademarks, and copyrights.

Of course, machines and other physical capital are important as well. But alone they are far from sufficient in producing growth because skilled workers and managers, and innovative entrepreneurs are needed to operate complicated machinery, to produce efficiently and to develop new products and processes. However, if there is inefficient organisation of production, people will go into the wrong specialties because of bad incentives. For example, if wage-price controls do not allow better-trained persons to earn more, there is little incentive to invest in on-the-job and other training.

The countries that have attracted a lot of investment have done so not mainly because there has been a large elite of college graduates, but because they had not just cheap labour, but cheap labour that is efficient labour that can produce enough, given what you have to spend, and who know enough and work hard enough.

These days, it is above all important to build a talent management strategy to target the right people, with the right processes and the right execution. For this, one should know his or her business, "what does the business require," and of course the employee base, "who are they and what are their unique needs."

It is time to make human resource (HR) practices where one size fits one, not one size fits all, especially for the talented.

Companies should find the right mix of rewards and look at other HR systems and practices to ensure they are in alignment with business drivers for driving business performance.

Human resource management will be, and in most of the world already is, the most important management tool of the 21st century. European and Northern-American companies already fight the war for talent, but what about Asian, especially Korean companies?

THE DIFFERENCE IN THE KOREAN MANAGEMENT CULTURE

The rapid industrialisation process in Korea was not only amazing but also extraordinary in modern history. The government played an active role in it through developing industrial policies and fostering close relationships with priority industries and related big businesses, which has often been cited as one of their major sources of strength, and helped to create a very dynamic economic growth. Its interventions were justified on the grounds that it wanted to catch up with advanced industrialised nations within the shortest possible time.

But why is Korean management style said to be so different from a Western management style? Is it only the culture, the organisational structure, the staffing and recruiting of employees, the unique human resource policies, or is it the mixture of all of these? In order to better understand the management style in Korea, one has to have a look at the history of the last 50 years.

More than one half of the industrial base that was left behind by Japanese colonial rule in 1945 was destroyed during the Korean War, which lasted from 1950-1953. In the 1950s the Korean economy lived on American military and economic aid. While some import substitution projects, such as sugar refining and textiles, were introduced during the 1950s, the US-educated President Syngman Rhee was more interested in introducing free market principles than in heavy governmental intervention.

The few earliest chaebols, such as Sambo, Samsung, Kaepoong, Lucky (later Lucky-Goldstar), Taehan and Tongyang experienced relatively rapid development in the 1950s. As Rhee's government dispensed with favourable concessions in the form of import licenses, foreign exchanges at favourable rates and governmental properties expropriated from the Japanese, these early starters became a ready target of the civil revolution in 1960 that led to the collapse of Rhee's government. In August 1960, twenty-four companies were required to pay a total fine of \$65 million for tax evasion and unfair profiteering. The military government of Park Chung Hee, which replaced the civilian government in a coup in 1961, continued the campaign against the corrupt chaebol owners. These events had a number of effects on the developments that followed later.

However, Korea's unprecedented record of economic growth started in the early 1960s when government policy shifted away from import substitution towards export orientation.

In the early 1970s the Korean government was concerned with the country's decline in competitiveness in the world market, and focussed on the promotion of new strategic export industries and import substitution of intermediate inputs and capital goods. As a consequence, massive investment programs were introduced to promote heavy and chemical industries, such as shipbuilding, steel and petrochemicals.

Rapid human development can be attributed to the fact that Korea has pursued an export-oriented growth policy and these outward-looking developments were implemented by use of Korea's abundant well-educated labour force. Korea's exports were concentrated in labour-intensive manufactured goods, in particular during the 1960s and early 1970s; this concentration has since shifted into more capital or skill-intensive products. Thus, the strong performance of labour and skill-intensive export industries insured growth of employment and real wages, which, in turn, increased emphasis on education in the society. In Korea, growth of employment and real wages were very high throughout the period. The unemployment rates were exceptionally low at only 4.4 percent on average for the period from 1963 to 1992. Hence, the strong growth of employment and wages, which was generated by the development of the labour-intensive export industries, made a contribution to increase in demand for education. It is well known that educational investment is essential to increase workers' ability to adapt to changing job conditions in an environment of uncertain technological changes.

So, by fostering education they created a valuable work force, which in return helped skill-intensive industries to develop, which led to the growth of employment and wages, increasing the demand for better education. Also, global competition imposed by export orientation forced the government and companies to invest actively in the accumulation of human capital for the economy.

One can say, that it was Korea's unique history that helped to build out such well-educated, loyal labour force, which helped to make Korea a leading world economy. The Korean people, as a community worked for the better future of their country and their children. But now, when the time of indigence is over, the people of the new generation will concentrate on their own future instead of the country's or companies. Furthermore, human resource management has to adapt to these social changes too.

After taking a look at the brief history of Korea's unbelievable economic development, we can understand the most important differences in Korean management style better.

According to a study of Lee and Yoo¹, more than 30 percent of the executives of the top 20 chaebol groups are family members of the owners and the four largest chaebol groups clearly illustrate the family domination.

The Samsung group, which was founded by Byung Chul Lee, has one of the highest ratios of non-family member executives, who account for about 95 percent of the total executives. The founder of this group is the first in Korea to use a competitive recruiting system, but family members still dominate the most important positions in the group. His third son, Kun Hee Lee, succeeded him as chairman after his death. Byung Chul Lee's second son and two sons-in-law also hold top positions in the Samsung group.

The concentration of authority results partly from the fact that ownership and management are not separated in most Korean companies. The owner family actively participates in the management of most Korean companies, as many Koreans value blood relationship so highly that they have an extended clan, which provides security for the family members. The larger the clan, the broader based the security would be for members of the clan. Business founders are expected not only to take care of their own immediate family members but of other relatives also.

Professional executives and managers also form an important power group in Korean companies. Personal networks are extremely important not only within, but outside the company too, and people foster them over the years. However, many of the managers are initially recruited through open competition from an elite group called gong-chae.

With time, internally promoted career executives and managers will grow in number and power.

Common geographical and school ties also play a strong role in the formation of management power groups. A common practice is to bring one's school and hometown friends into management.

¹ Lee, S.M. and S.J. Yoo (1987) "The K-type Management: A Driving Force of Korean Prosperity", *Management International Review* 27 (4): 68-77

Major Sources of Influence within the Korean Management System

The Korean management system has three major sources of influence. The first is Confucianism, which was the state philosophy for more than five hundred years, beginning in the Yi Dynasty in 1392, and ending in 1910 when Korea was annexed by Japan. Confucianism deeply influenced the values, attitudes, and behavioural patterns of Koreans and the Korean management system too.

The second and third sources, namely Japanese and American influences were also very important in shaping the Korean management system. Korea was a Japanese colony from 1910 to 1945 after which American influences outweighed the Japanese until 1965, when Korean-Japanese relations were normalised. Since then, American and Japanese influences have been equally important, as Korea has close business ties with both nations. They depend on the United States, as it is the key market for their exports while relying on Japan as a source of intermediary products needed to manufacture those exports.

Korean companies have developed their own management system based on these three sources of influence. The main tools of Korean management are: paternalistic leadership, top-down decision-making, clan management, personal loyalty, high mobility of workers, flexible lifetime employment, compensation based on seniority and merit rating, etc.

Organisational structure

Organisational structure is an important aspect in helping to understand the Korean management system. It is characterised by a high degree of centralisation and formalisation. Authority is concentrated in senior levels of managerial hierarchies, with major decisions – especially financial decisions – approved by top-level managers, usually two-three at different levels. The Samsung group in the past used a process of twenty-one levels of approval, which took several months to get a project approved. When Kun Hee Lee became chairman of the Samsung group, this decision-making process was cut down to three levels.

The hierarchic structure starts with the chairman, followed by the president, vice president (busajang), senior managing director (junmu), managing director (sangmu), department manager (bujang), section manager (kwajang), and continues down to the foreman and blue-collar workers.

One interesting organisational feature of Korean companies is that they normally do not employ personal staff (secretaries / assistants), with the exception of assistants for the group chairman. Other executives tend to be supported by deputies and assistants as line positions rather than as personal staff. This increases the layers of vertical hierarchies contributing to a centralised and tall organisational structure. Another exceptional organisational feature of Korean companies is that their vertical and hierarchical control is supported by strong functional control from staff departments like planning, finance and personnel. Korean companies give great importance to functional specialisation, allowing the planning and finance departments to exercise significant functional control under the leadership of the chief executive. Many chaebols have a separate planning and coordination office under the group chairman, which is responsible for allocating major internal resources within the group

Therefore, many Korean companies have a combined organisational structure with a horizontal concentration of functional control in staff departments and a vertical concentration of decision-making power at the senior levels of management.

Korean companies usually do not have specific job descriptions and individual job is not clearly structured contrary to the centralised organisational structure and formalised functions of the company. Normally, the supervisor decides the responsibilities of the individual employees, according to the needs of the occasion.

Decision-making

In Korea, there is a strong influence of family traditions, therefore corporate leaders; especially founders manage on the basis of principles governing the family or clan system. In the traditional Korean family, the father is the unquestioned and respected leader. He has almost absolute power but also full responsibility to feed the family and to decide the future of the children. This can explain the strong authoritarian style of superiors in the managerial process.

A top-down decision-making style is quite typical among Korean companies. Usually, 80 percent of the authority lies in the upper management level, with middle or lower level management having very limited authority. It also results a kind of passive attitude at the subordinate level. Nevertheless, the authoritarian style is not despotic. Corporate leadership in Korean companies emphasises harmony between unequals in rank, power and prestige. Korean managers try to maintain good relationship with subordinates, even though they may sometimes have to compromise group performance, but Korean subordinates are usually reluctant to express their opinions.

HUMAN RESOURCE MANAGEMENT IN SOUTH KOREA

Recently, human resource management (HRM) practices in Korean firms have undergone an important change as an answer to the rapid change in their environment. The motive of the change primarily came from the so-called “IMF crisis” at the end of 1997. The shock among the Korean public was beyond imagination. The innate myth that banks and big companies-groups (“Chaebol”), the symbol of Korean economic success, never go bankrupt has gone away. Korean firms began to realise that growth is not everything, and they started to concentrate on the profitability-driven strategy. This reorientation in business-strategy have made the Korean firms even more cost-conscious, and they started to pursue actively innovative changes in HRM practices, such as new compensation system based on performance instead of the traditional seniority based compensation system.

After the economic crisis, many Korean companies have turned to downsizing. According to a year 2000 statistics of the Korea Labour Institute (KLI), sixty-six percent of listed companies had lay-offs in their workforce.

Earlier in the growth era flexibility in managing their workforce was not a consideration, but after the economic crisis it became more and more popular among Korean companies. However, this lay-off experience has also changed the attitude of the employees towards the company: the tie between company and employees became loose and employees began to search an opportunity in external labour market.

The traditional HRM system based on long-time employment and seniority-based compensation was both questioned by employers and employees, and the generalised job insecurity and distrust among employees forced Korean companies to find a way to develop and motivate core workforce. They try to introduce various incentive systems and to increase the autonomous and creative work environment

Admitting the importance of talent management, companies such as Samsung, LG, and SK are introducing employee referral bonuses, signing bonuses, and retention bonuses in their payment system, but these are not the only changes made.

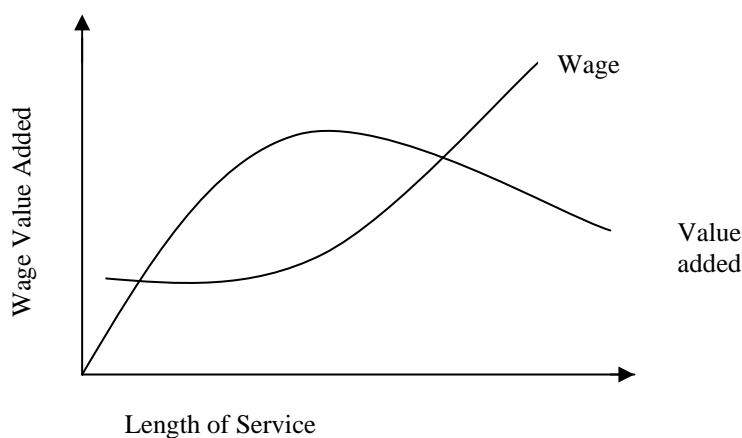
CHANGES OF HRM PRACTICES

According to the Korea Labour Institute's 2000 survey more than 80% of the surveyed Korean companies have undergone changes in almost every area of HRM practices after the economic crisis. This shows that the changes in HRM practices are very extensive and general in Korean companies. More than 50% of firms reported to have made important changes in their compensation and evaluation system, which may be explained by the rapid diffusion of merit pay in Korean firms.

Compensation

The most important changes in the Korean HRM system, after the economic crisis, happened in the field of compensation. Traditionally, the Korean payment system (so called "hobong") is seniority based that means, seniority has been an important element in determining base salary. As it does not reflect the performance of employees and the value added to the company, it has long been the object of critics. Lately, Korean firms began to introduce merit pay determining pay increase according to the personal performance, and introduce group incentive system.

Seniority based compensation system²



² Source: Korea Associates Business Consultancy Ltd.

Merit pay

The merit payment system (so called “Yeon-bong Je”) was introduced in only 3.6% of the Korean firms employing more than 100 persons in 1997. This number has more than tripled during the next two years, reaching 12.7% in 1999. It is now implemented in 45.2% of them, and 22.6% of them are planning to adopt it in the near future. The economic crisis and environmental pressure played an equivalent role in changing the payment system for merit pay in Korean firms. However, 35% of the Korean companies introducing the merit pay also maintain the seniority based increase in pay to avoid the sudden change in the payment system.

Group incentives

Group incentives, especially profit sharing and gain sharing, show sharp increase in Korean companies after 1998 according to the recent surveys of Korea Labour Institute.

Merit pay can cause high competition among employees, which sometimes can lead to the deterioration of the quality and quantity of the work. Therefore, already 20% of the listed Korean companies use the profit sharing scheme to motivate their employees for cooperation, which leads to efficiency.

Further changes

Another important change in Korean HRM practices is the flattening structure. Traditionally, long hierarchy and concentration of authority at the higher levels characterize the company structure in Korea. Newly, they are flattening the structure by shortening the decision-making procedure, trying to eliminate the heavy burden of administrative work and inefficient decision procedures.

Traditionally Korean firms have maintained paternalistic family-oriented management styles. This ideology was used to develop long-term psychological relationship between employees and management. The company took good care of its employees from the very beginning to the retirement age. Consequently, considerable layoff was rare for Korean firms before the IMF crisis.

Transformation from autocratic HRM to democratic HRM is also another feature of new HRM paradigm. Autocratic leadership was very effective for the rapid economic development by providing concrete guidance or direction. Nevertheless, active utilisation of human resources becomes one of the most critical success factors for Korean companies under the recent environmental pressures.

When looking at the content of the workforce, it is obvious that Korean companies prefer generalist who can perform all-around roles in the organisation and thus provide internal flexibility. But Korean firms also had to realise the importance of the specialists above all in the development of information and communication technology. Other distinguishing changes in the HRM system of Korean firms are externalisation of staffing practices, provision of career ladder and incentive schemes for specialists such as R&D engineers and marketing professionals. Previously, Korean companies recruited mainly young people who then had to climb through the career ladder. Positions were filled from within the company by promotion.

Staffing

To cope with the rapidly changing environment, Korean companies had to change the way of managing their workforce. The main problem was not the selection criteria but the recruitment source. Korean firms began to search external resource pool more actively and started to use contingent workers more intensively.

Selection criteria

Creativity and challenge, integrity, cooperation, and technical competence are said to be the important selection criteria at Korean companies and these criteria didn't change much in the past couple of years unlike the relative importance between cooperation and technical competence.

When a firm chooses cooperation over technical competence, it shows that they plan for a long-term perspective, related to a long-term employment practice, while technical competence can be considered as a short-term selection criterion, related to job-based management. Thus a company can always outsource some jobs and get excellent specialists who are not so faithful, and develop technical knowledge at its own employees through in-house training.

However, training is yet not so important at Korean companies. It is clear if we have a look at the survey of the United Nations (see the table below), on human resource planning in Korea. Male workers are more likely to participate on a training program than female workers and the duration of their training is longer too. The average training for female employees is less than a week long, and it is more likely to be organised within the company.

It is not more than 3,5 % of the employees who receive a training longer than three months, which is not considered long in any European company. Thus, this table shows that Korean companies so far have not realised the importance of developing talent within the company, and they still prefer to buy talent from the labour market.

Percentage Distribution of Workers who Received Training during Employment ³		
Sex	Male	Female
Trained during employment	33,7	20,9
Type of training		
pre employment	5,6	12,1
in-service	64,7	71,4
both pre employment & in-service	29,7	16,4
Total	100,0	100,0
Duration of training		
less than a week	65,0	83,6
less than a month	18,2	7,1
less than three months	13,0	7,9
less than a year	3,0	1,4
more than a year	0,9	
Total	100,0	100,0
Location of training		
within establishment	38,2	56,8
outside establishment	61,8	43,2
Total	100,0	100,0
Finance for training		
self / family	3,4	7,2
employer	89,6	69,1
no fees charged	6,9	23,0
Total	100,0	100,0

³ UN – Labour Markets and Human Resource Planning in Asia: Perspectives and Evidence

Source of recruitment

As mentioned earlier, Korean companies preferred to use internal promotion instead of the external labour market as source of recruitment.

Even though the 2000 survey of the Korea Labour Institute shows that up to now only 25% of respondents have the policy to get the necessary workforce by staffing it from external labour market, it also indicates that 78.5% of respondents have experience of recruitment from outside. That means they realise the importance of knowledge and talent.

In the earlier times, regular promotion was taken for granted in Korean firms. A 1997 survey showed, that less than 10% of managerial jobs were recruited from outside the firm (Park and Ahn, 1998).

Utilisation of contingent workers

After the 1997 financial crisis there was a rapid increase of the contingent workforce in Korean companies as they were forced to make their workforce more flexible. There were massive lay-offs at most of the companies, but at the same time they hired new workforce as contingent workers. The portion of contingent workers in total employees is rapidly increasing in a row from 1997: it is 5.5% in 1997 but represents 8.6% in 1999.

Another survey prepared by the UN showed, that Korean employees have started to change their jobs more frequently, which was very unusual before the financial crisis. Nevertheless, the number of people having only one job in their lifetime is still very high among Koreans.

Percentage Distribution of Workers by Number of Job Changes⁴		
	Male	Female
No change	51,3	60,9
One change	18,6	17,7
Two changes	7,2	6,0
Three changes	11,3	8,6
More than 3 changes	11,6	6,7
TOTAL	100,0	100,0

⁴ Source: UN – Labour Markets and Human Resource Planning in Asia: Perspectives and Evidence

Strategic Planning and HRM in Korea

Human relations executives of the majority of Korean large firms currently participate in the strategic planning processes in the organisation and significantly influence in decision-making of CEOs. The Korea Labour Institute also surveyed the changing role of the human resource departments within Korean companies and found that the majority of the companies approved their important role in implementing organisational strategy but in reality, only in thirty percent of the companies did the HR department play a significant role in implementing organisational strategy. It means that even though Korean companies begin to realise the strategic role of HRM within an organisation, but only a few firms actually implement those roles.

The Institute summarized its findings in a table about the changing role of the human resource department within the Korean firms.

	Yes	No
The role of HRM has significantly increased after the IMF crisis	51,8 %	9,5%
The role of HRM will significantly increase in the future	57,8%	8,8%
HR executive participates in the strategic planning process	53,5%	17,5%
HR executive significantly influences the decision-making of the CEO	56,0%	10,5%
The HR department should play a significant role in implementing Organisational Strategy	53,5%	9,8%
The HR department plays a significant role in implementing the Organisational Strategy	30,8%	22,3%

The survey also found that the executives with whom the CEO's of Korean companies consult were mainly the marketing executives (49.8%) then the finance executives (24.5%). HR executives got only seven percent, which means that the leadership of Korean companies does not understand fully the importance of human resource management in competing for the future of their company.

The overall findings showed that traditional HRM practices and perspectives of Korean companies are not very effective anymore but practices such as promotion standards and selection criteria in which seniority and membership is still important are widely used even these days. The new direction of HRM practices and perspectives should be the one that gives these companies more flexibility and at the same time emphasises the better performance of employees. The 21st century should be the “the human capital driven stage of development”.

VISION OF HUMAN CAPITAL DEVELOPMENT IN KOREA

Korea will face a great challenge in trying to utilise its excellent human resource pool throughout a reform of its traditional human resource management system. Korea's education system now enrolls over 10 million students at levels of all schools, and about a quarter of the entire Korean population is engaged in some form of schooling.

While the information age calls for creative, talented, self-motivated, flexible manpower with learning abilities, such individual attributes or aptitudes are seriously lacking among the majority of the Korean workforce and students at present. Korea's human resource policy hitherto concentrated on producing mass-educated manpower equipped with basic or medium-level cognitive skills or technical abilities.

Despite some recognisable improvement made recently, most of the formal schooling is still conducted in over-crowded and under-staffed schooling environments.⁵ Teaching is rigid, narrow and stereotyped, heavily drawing on memorisation. The low-cost education policy corresponded well with the general skill needs of the industries in the past, when mass-production technology and hierarchical organisation were dominant, and most labour force were assigned to relatively simple, standardised tasks. But in the era of information technology and globalisation, such a low-cost policy will be costly. Manufacturing technologies not only become obsolete more quickly but they also become more and more sophisticated, requiring specific skills. Demand for labour with fixed, specialised skills will soon diminish, while the demand for 'agile, re-trainable labour' ready to acquire new skills will continue to rise.

Human resources have contributed enormously to the rapid economic development of Korea. The Korean economy is now at another critical juncture in its development, trying to survive in the intense international competition. Successful mobilisation of capital and labour are believed to be the sources of Korea's amazing economic growth, however the long-term growth potential of the Korean economy will essentially depend on how successfully the Korean people manage to improve their human resource management.

⁵ In terms of student-teacher ratio, for instance, Korea's ratio of 33.2 for the primary school is almost twice higher than the OECD average (17.9), while its secondary school ratio 24.6 is also far above the OECD average (14.0) - "Education at a Glance" (OECD, 1996)

SAMSUNG HUNGARY ELECTRO-MECHANICS (SHEM)

Short Introduction of the Company⁶

With Samsung Electro-Mechanics' exclusive investment, worth a total of US \$21.20 million, including US \$4 million in capital, Samsung Hungary Electro-mechanics (SHEM) was established at a site covering 42,000 m², with a building area of 4,600 m² in Szigetszentmiklos Industrial Complex, near Budapest.

Situated alongside the Danube River, the Budapest metropolitan area also gives home to global electronics giants like Sony, Alps, Philips, Siemens and Samsung Electronics, providing outstanding market penetration opportunities for the new plant. Szigetszentmiklos is known as a perfect site in terms of costs, as well as the transferring of materials because it is located next to a highway circling the capital.

Furthermore, with Hungary scheduled to join the European Union in January 2004, easy access to high potential EU markets will be available.

The company launched full-fledged factory construction in July 2000, after the corporation's establishment in April 2000.

The factory, which was completed in January 2001 and started its production in April the same year, produces TV set parts such as Tuners, DYs (Deflection Yokes), MLCCs (Multi layer Ceramic Chip Capacitors), FBTs (Flyback Transformers) and supply them to TV set makers in Europe. The company plans to diversify its products from the second production year. Test production started in January, and regular production in April 2001.

Samsung expected sales of the plant to reach US\$26 million in the first year and a growth to US\$200 million by 2004, through promoting on the spot supplying of materials and improving production efficiency. SHEM's primarily focus was on stabilising the factory operation as soon as possible, to enable a surplus at the beginning stage of the new business.

⁶ This chapter is taken from the SCR – Retaining Your Key Employees; *A Case Study on Samsung Hungary Electro-mechanics* – KDI School, Regina Remenyi

Korean managers were dispatched to such major sectors as production, research, sales and management in the field, and high-level Hungarian assistant managers, technicians and some line workers were trained in the Suwon headquarters and Samsung Electro-mechanics' Thailand factory.

At first there were only 4 Korean managers in the temporary office of SHEM, in a furniture store at the centre of the city of Szigetszentmiklos. The President of SHEM, Mr. Lee Se-Woon, Vice President and Production Manager, Mr. Yoon, Sales Manager Mr. Chang, and Financial Manager Mr. Suh. A Hungarian law firm was responsible for the incorporation and signature of the firm, the purchasing of the land, and for getting all the required certificates and official documents.

They chose the location for the temporary office, as it was big enough for future expansion and it was easy to access by several means of public transportation, which was important for the job interviews. The office was opened from the 1st of August, and first 4 Hungarian employees were hired, through a job advertisement at the local labour office.

Human Resource Practice – The first few months ⁷

The company started recruiting in the beginning of August, 2000. At this time there was no HR professional at the company, and the incoming resumes were registered in a Microsoft Excel file, stating the name, age, sex, address, the current or last job and employer of the applicants with the date of application, giving them a serial number according to the month they applied in (e.g.: 001/08 – first applicant, August).

The applicants were given a grade according to their skills and knowledge and importance to the company. For instance, on the one hand, someone who had enough experience, and was also young, energetic and could speak English got an A grade on his resume, and was summoned for interview as soon as it was possible. On the other hand, people with few or no special skills, no English knowledge, and everyone above 40 got a C, and at the end of every month these people were sent a letter of regret, saying that at the moment they cannot join Samsung, but their name stays in the database and they will be informed if any job opportunity arises at the company, which suits their skills.

The problems were:

- Two or even three people simultaneously managed the database at the same time, instead of having one responsible person for it.
- The database did not have a safety copy so it happened at least 2 times, that the entire database was lost, and it had to be input once more.
- As there was no professional system set up for the registering and handling of the incoming resumes, and the 3 Korean managers were all doing interviews at the same time, it sometimes happened that a resume got lost.
- The resumes were filed in the order of arrival, and not according to the type of job the people applied for, which later made it hard to find someone for an available position.

⁷ Some parts of this chapter are taken from the SCR – Retaining Your Key Employees; *A Case Study on Samsung Hungary Electro-mechanics* – KDI School, Regina Remenyi

Early Interviews

Usually three to five applicants were summoned for a half an hour schedule, as both the production manager and the sales manager were doing interviews at the same time. As most of the applicants did not speak English, the interviews were interpreted.

At the same time, the employee who registered the resume in the database, had to translate it and write down the most important elements of it on the resumes itself, because they were mainly in Hungarian. Important elements were: sex, age, educational background, job experience, permanent address and family background.

The address of the applicant was important, as the management preferred to hire people from the region. The factory was being built in an industry area, with no public transport; therefore the company was planning to run company buses from the neighbouring villages and towns. If the applicants lived outside of a 50 km range, they were asked if they were willing to move to the region, or if they saw any other way they could get to work every day.

During the interview the managers took notes on the resume of the applicant, by putting down the expected level of salary, length and details of experience, family background and the applicants' level of English if they spoke the language. At the end of the interview all applicants go a final evaluation (A for contract, B for contact later, and C for rejection).

After finishing the interview, the interviewing manager gave back the resume for registration. The expected and offered salary level, and the result of the evaluation had to be input into the database.

As the preliminary trainings were not to start before October or November the same year, even those who were accepted, could not sign a contract at that time. They were told that they would be contacted within two months about when they have to start working. They were also asked if they were willing to take a two or three months training in one of Samsung foreign affiliates.

PROBLEMS:

- None of the interviewers had relevant experience or knowledge about job interviews.
- Applicants for the line worker position were also interviewed separately, which took a lot of time. As the position does not require any special skills, they could have been interviewed in groups. (This was introduced in November the same year. Until then, all line workers were interviewed separately.)
- Sometimes applicants for a position other than line worker (e.g.; a position at the sales department) were initially interviewed by a manager from another department (e.g.: production); so later they had to come back for a second interview with the department manager.
- As production was only to start from next year April, for some positions it was too early to have job advertisements and interviews. It did not do good to SHEM's reputation that they were having interviews for jobs, which would only live in 6 months or more. Because of this they also lost a lot of good applicants.
- Interviewing Korean managers had no clear idea about the average Hungarian wages and there were no fixed wage levels for positions, so they simply deducted 20 to 40% of the applicants' expected salary level, and offered that as a starting salary.

Formation of the HR department

The management finally came to a decision about the HR manager, and they hired a 33 years old, young Hungarian lady to be the HR manager of SHEM. Previously she was the HR manager of a Singaporean electronics company – JIT, where she built up the employee base from the start. She had the right experience for the job, and she was also familiar with the Asian management culture. She brought along her two assistants, and they started working from the 4th week of August.

When she arrived she asked the permission of the President to hire 4 more people to the HR department, so that they can start working. Instead of hiring new employees, she was given the four existing employees to work with.

In a week, she set up the organisational structure chart, the personnel requirements and a new system for the interviews and the handling of the resumes.

She issued two people for the tasks below:

- receptionist tasks
- registering the incoming resumes
- forwarding them to the senior HR personnel, so that they can decide whether to summon them for interview or not
- scheduling the interviews
- filing the resumes
- sending out the letters of regret

Another two employees were issued the following tasks:

- finding more sources in the region where the company could post its job advertisements
- visiting the labour offices in the region, building out good relationships for future cooperation
- preparing and posting the advertisements for the line workers and technicians in the media
- conducting the interviews with the applicants for the line worker or technician positions

Herself and another person with experience in the field of selecting and recruiting were responsible for the key positions, which were basically everyone above the technician level.

Furthermore, she added the capital city, Budapest, to the targeted places for employee recruitment, as the future plant was only 15 km South to the capital, and Budapest's inhabitants make up to one fifth of the Hungarian citizens.

She organised the work and the tasks of her new department, and started to concentrate on recruitment for the key positions. But first, the management sent her and another employee to Samsung Electro-mechanics' Thai factory for benchmarking.

Benchmarking at SEMTHAI

The Thai factory is the most productive and successful foreign affiliate of Samsung Electro-mechanics. That is why they were picked for benchmarking by the executives of SHEM. Moreover, the President of SHEM used to be Vice President of SEMTHAI before being promoted and moving to his new job in Hungary.

During the eight days in Bangkok, the Hungarian HR manager and her assistant could look at the whole Human Resource System of Samsung Electro-mechanics Thailand. (from recruiting, to on the job trainings, compensation and promotion systems, benefits, sick leaves, maternity leaves, transportation, cafeteria system, health insurance...etc.). They were given samples of different company forms and some training materials too.

What they found was that most of the policies used at SEMTHAI could be easily implemented in Hungary, as the social and political scheme of the two countries were not that different.

Two main exemptions were the maternity leave and a monetary reward for effective, cost saving idea from employees.

In Thailand employees were only leaving work for 3 months when giving birth, as they had the elderly generation staying at home and taking care of the children. Basically they left two, three weeks before giving birth, and returned within 3 months. From their 5th month of pregnancy, they were taken off the line, and were issued easier tasks.

Whereas in Hungary, the state provides a very good benefit for women on maternity leave, namely around 70% of their salary latest, up to a possible 3 years! Besides, the company pays the benefit in the first two years of the maternity leave. Furthermore, the company is obliged to take her back when the woman returns to her job, even if there is no position available for her at that time.

In case of the other excellent practice, it was not possible to introduce it in Hungary, as the monetary award is taxable according to the Hungarian law, therefore it is also very costly for the organisation.

The overall evaluation of the benchmarking was excellent; as it gave a useful overview for the Hungarian HR manager on how a human resource system is operated at a Samsung Electro-mechanics factory.

PROBLEMS:

The Korean management wanted to implement everything just as it was in Thailand. They weren't aware of the fact that in Hungary no woman would return to work, if she could get 70% of her salary while staying at home with her baby.

Even though the Hungarian HR experts advised them to hire women who already have children, and would not go for maternity leave in the near future, they insisted on hiring 18-35 years old females. In a company, which was planning to employ 500 young women at the first stage only, this issue is fundamental.

Later, when benchmarking at a Japanese company producing electronic parts in Hungary (similar as SHEM), the HR manager claimed, one third of their employees went on maternity leave, only within the first year of the company's operation!

Trainings at SEM's three foreign subsidiaries

After returning from Thailand, the HR manager hired a young but experienced HR professional, for the position of Training Executive. He was responsible for preparing and coaching the future participants of trainings at SEM's three of several foreign subsidiaries, Thailand, Suwon – Korea, and China. By the end of the year 2000, more than 90 employees of SHEM have participated in such trainings, and another 70 next year January.

The employees were usually line workers, around 15-18 from each department (Drum, FBT, MLCC...), engineers, IT professionals, production engineers, and technicians.

Their period of stay was ranging from one and a half month to three months. The IT specialist stayed the longest, as they had to attain proficiency in the SAP software, which is the heart of all departments, including payroll and production, at Samsung Electro-mechanics' all factories.

PROBLEMS:

- As the HR department was pressed for time to have an exact amount of people for different positions, the recruitment of these people was done in a rush, therefore they could not select the best possible applicants for each position, “but the best available”.
- There were numerous trainees with health problems, especially among the trainees in Thailand, as the Hungarians were not used to the tropical weather, food and the overall circumstances.
- As no one spoke English at the line worker level, and only some technicians did, the production managers and engineers had to stay there and translate for them during the whole course of the training. This of course, took a lot of time of their own training.
- A lot of participants at the manager or specialist level complained that the trainers did not have a good English knowledge, so they could not deliver the lectures effectively.
- We can state that there were serious communication problems.
- Those who have participated on the training during the Fall of 2000, had nothing to do upon returning to Hungary on the 18th of December, until early February, so they were forced to take their paid holiday days, and later they had to participate on further trainings, just to keep them busy.
- By the time the production started in May, around 35% of the employees who have participated in any of these foreign trainings, have left the company. The most of them were engineers, IT specialist and technicians, the heart of the production departments.

The Leave of the HR Manager

A Korean HR manager arrived to Hungary in early September, who became the supervisor of the Hungarian HR manager. Even though when hired she was promised to have no other superiors than the president himself, and that she could report directly to him. This caused problems of power and responsibility, which on the long run led to the removal of the Hungarian HR manager from her office, at the end of November.

The Hungarian HR Manager took all the key employees of her previous firm with her. They had the experience of producing electronic parts, and they were all eager to work, as the Singaporean firm was acquired by another company, and was under liquidation. With this step, and with organised and planned job advertisements, about 400 people were hired by the middle of October, most of them with a January 2001 contract date. But regardless of her success, the debates among two or three Korean executives and the Hungarian HR manager became regular, daily quarrels.

The reasons of her leave:

1. Korean side:

- Wanted to make the recruitment process quicker, therefore they ordered the employees to schedule at least 40 interviews a day. This meant, that other staff members had to interview too, as there weren't enough people on the HR department to do it. It caused a total chaos of course. Again, resumes were lost, some people had to come for interview two or three times, as some other executive wanted to meet them, asking him or her the same questions, and giving the same answer – thank you very much, we will let you know soon about the result of your interview.
- Wanted to make sure, everything was going on well, so they double checked the work of the Hungarian HR manager, and bound her to request for permission if she wanted to spend more than \$500, which is less than the price of a regular job advertisement. – This of course slowed the whole recruitment process down, which again caused tension between the two parties.

2. The Hungarian side:

- The Hungarian HR manager was of course very upset when she got to know, that everybody is giving orders to her subordinates for scheduling interviews, placing job ads in newspapers with low reach, and that she has to ask for permission in almost every case she wants to do something. (placing job ads, participating on job fairs etc.)
- She could also not take responsibility for people hired by non-professionals. It happened sometimes that engineers, or executives were hired in spite of her strong opposition.
- She felt that her opinion did not count, and gave voice to her displeasure quite often, which did not please the other party at all.

As a result, the relationship between the Hungarian HR manager and some of the Korean executives went so bad, that the President of SHEM could not withstand the push of his managers and had to dismiss the Hungarian HR manager.

After she left the company, SHEM was operating without a Hungarian HR manager for 7 months, until they could replace her. During this time, the chaos and uncertainty in the HR department just grew, and a lot of employees left the company.

Almost all the engineers, production managers and technicians who came along from JIT Electronics with the Hungarian HR manager, left within 3 months of her leave.

Results of the first year of production

The production at SHEM started in 2001 April, with great expectations from both the side of the company and its employees. The company leadership was planning to have a profit already at the end of the first year of production, but they could hardly reach the targeted production capacity not to mention the profit level. Unfortunately, the leadership of SHEM didn't authorise the publication of any exact data of its business plan. Therefore, we can only say that even though they had some profit, it was much lower than the planned one.

The root causes were: high turnover of employees, high absenteeism, low competency levels and low job esteem.

Most of the employees are ready for a change at any time and are searching for job opportunities continuously. When managers are making future plans they forget to consider the workforce and its future benefit for the company. Along with, that the knowledge and talent of these people will be crucial in the future.

The sophisticated, skilled and experienced workforce has a more diverse choice to workplaces due to the access to the information superhighway and the rapid economic change. Nevertheless, training an employee in the information age is usually extremely costly and loosing these people may lead to a loss in future possible earnings. This raises the question whether the employer can do anything about the loyalty of its employees besides binding them to the company with contracts, and what is even more important is how to do it.

At the end of the first year, less than half of the people were working at SHEM out of the original 160, who were trained abroad before the production began. Moreover, there were only 780 employees, even though the company hired more than 1200 employees since its existence. Turnover has risen to never seen heights.

An average line worker stayed at the company for about 3,5 – 4 months, out of which it took her about 2 months to learn the work process, and how to operate the machinery.

This meant that by the time the line workers were ready to do their jobs and produce without any defects of quality and in the acceptable pace, they usually left the company and the newcomers had to be taught and trained again, leaving a higher burden to those who were already working on the lines for a longer time.

Not only was the turnover very high, but also the absenteeism rate. It reached an average 6%, which is extremely high within the industry. Considering that the assembly at SHEM is done on production lines, where the work stops even if only one out of the 18-22 employees is missing, this was a huge problem for the company.

However, instead of checking the actual reason behind this extreme absenteeism, what the human resource department of the company did, was to hire one person only to check if the employees on leave were really sick, or not, sometimes even by actually visiting them at home. If they were not sick, the company fired them right away.

On the one hand we could say it was effective, as the absenteeism rate fell a little, but on the other hand the employee satisfaction fell too, because they felt as if the company was spying on them.

It would not be appropriate to say that people are becoming indifferent to their companies, but they might not rethink twice before jumping on another train running faster and safer with better promises. They take time to evaluate the information gathered about their desired position, job, working place or area, and make a quick decision in favour of the better one. Even if the difference is minimal.

Koreans are highly motivated workers and are well known for enduring long workdays. While the specific motivations of Korean employees vary depending on the size of the company and the level of seniority, high wages and job security tend to be the most important motivational factors.

The employees of SHEM were not motivated and were not satisfied with some of the working conditions, which they tried to communicate towards their supervisors, but without success. The policies were so strict that if one was talking to her neighbour or did not come back from the break on time, she got a written warning and after 3 warnings the person was fired.

Overtime was more than usual and if one could not stay, they also got a written warning. Employees felt that the expectations towards them were high and there was no reward in return and they could not effectively communicate their dissatisfaction towards the management.

The organisational communication process at Korean companies, including SHEM, depends heavily on hierarchical relations, which are determined by a combination of factors, ranging from formal authority and informal social status to length of employment and age. In the vertical communication process the superiors tend to prefer issuing general directives, as opposed to specific and detailed directives. For employees, vertical communication is more work-related than horizontal and thus more important. Poor horizontal communication between vertically structured departments has become a major barrier of many large Korean companies to efficient organisational performance.

This could be seen at SHEM, where both vertical and horizontal communication is weak. Communication among departments is really low, making the work much harder, as the relevant information is sometimes too late, or it is not coming at all. Employees occasionally got to know about changes through informal channels, after they were introduced. This of course, gave them a kind of feeling that they were not important for the company and that their job wasn't either.

To determine the real motives behind high absenteeism and employee turnover, an employee satisfaction survey was conducted, asking more than two hundred employees of SHEM.

Employee Satisfaction Interview

Unfortunately the management of SHEM did not authorise an employee satisfaction survey without further explanation. (The planned survey questions can be found under the tables and figures section of this paper.) Therefore, the opinions, beliefs and views hereafter were collected through unofficial personal interviews, with around a 120 employees of the firm.

Usually, an employee satisfaction survey should be conducted at least once every year. It should reveal if the employees think they have the following opportunities, and if they are satisfied with them:

- interesting work
- promotional potential
- high wages
- job security
- positive relationship with peers, subordinates and superiors
- others

After assessing the results, employees ought to also get a briefing on the findings of it, and the possible future plans to triumph over the dissatisfaction.

In the case of SHEM, no employee satisfaction survey was conducted before, which gave the feeling to the employees that the company did not care about their opinions and feeling. However, this was not the case as the company also tried to raise the level of satisfaction by organising such company events like sports days, or challenging quizzes.

Personal Interview

All those who had relevant work experience, that is more than 3 months spent in SHEM, and were in an essential position were included in the sampling frame. Because of the three working shifts, only employees in the first shift could be taken into consideration, which is totally 278 people. Finally around 40% of these people, that is 120 people, were asked about their feelings and opinion on the company, the work, their colleagues, overall satisfaction, etc. Out of the 120 people, one hundred were line workers and the remaining twenty people were office staff (from different departments including sales, purchasing, finance etc), technicians and engineers.

The outcome of the survey:

The reward and promotion system in Korean companies is traditionally based on seniority, but performance is becoming an increasingly important factor. Usually, high-growth companies tend to attach greater importance to performance than low-growth companies do. Promotion is based on a number of criteria: seniority, performance, personality, family ties, school, and region.

Employees at SHEM were not satisfied with the promotion and compensation system. Wages were low, and expectations towards them were high.

In case of the production workers, there are three salary levels. Line workers, line leaders and supervisors get the same salary, which is not much even in the Hungarian labour market, while technicians get a little more, but still a little less than those at the competitors. There are also four assistant managers, basically engineers supervising the production. Their salaries were quite competitive.

Line leaders, who had special duties like training the new comers, supervising the job of the people on the line, actually keeping together the team, fill in for an ill employee, were very disappointed that those working on the line got exactly the same salary without any special duties.

Another source of dissatisfaction was the long promised first salary increase, which actually happened in 2002 May, when there were some people who had already been working for the company for more than a year, and there were some who had only been there for a month or two. The amount of increase was zero to five percent, even though the inflation rate was around 9% during that year, which around 80% of the people felt too low. They expected a salary increase of the same rate as of the inflation rate.

Besides, most of the people were upset about the similarity of the level of the salary increase. Everybody got the same amount no matter how long they were working for the firm. Those who worked for SHEM more than a year ago felt that this was not fair towards them.

But salary was not the main source of dissatisfaction among the employees. About 40% of the production workers said, that they had problems with the moral of their fellow workers and that there was no team spirit on the production line they were working. They felt a lack of good fellowship.

On the contrary, office workers were very satisfied with the moral in the office and the with team they were working at. Their main source of dissatisfaction was that the amount of authority and the amount of responsibility they had, were not comparable. They could not make decisions on their own, although they were highly educated professionals, but they had to bear all responsibility for the things happening on their department.

Both the production workers and the office workers felt that the company did not trust them, and said that they would rather work in a smaller company, which is more family-like. They felt that this mistrust came from the size of the company.

Office workers also complained, that the management of the company made them feel that their work was only secondary to the company, and that the valuable job was of the line workers. They felt, that their jobs were equally important, and did not understand the company's point of view.

Both parties have complained about the lack of information from the management. There were several rumours spreading among the production workers that the company wanted to leave Hungary soon and put their production to a country with lower wages. Others were talking about bankruptcy and lay-offs. In case of the office workers, the lack of information was rather job related. They felt that they did not get sufficient and adequate information for their everyday job. There was basically no, or very few information coming from the top management, even on the regular monthly sales plan or the business plan itself. Because of this, about 35% of the people working at the office felt that their work had no use, it was totally needless and that they were misguided.

They all said that they could not talk to their supervisors about this, because the atmosphere was not democratic at all. They usually got direct orders of what to do and had almost no chance to have initiatives of their own. Around 67% of the office workers said that they were missing creativity from their work and that it was too monotonous, there were no challenges in it.

Around 74% of the people felt that their supervisor does not care about them as individuals, only what the job concerns. They also stated that they missed the recognition for their efforts and good work, even if it would have only been a couple of words from their supervisor. 83% said that they did not get any positive feedback on their work, and 29% said that they did not get any feedback at all.

The lack of information and recognition made most of the employees indifferent to their jobs that resulted in a kind of passive resistance from their side.

The overall situation at the company that the employees felt, was quite chaotic and uncertain, which was in truth not the case as the company was doing well, getting closer to its targeted sales amount and profit.

But before drawing a conclusion of why and how could this happen, to such a successful company as Samsung Electro-mechanics, I would like to discuss the most important points in the early mistakes of the company's human resource policy and human resource practice that could lead to this situation.

SHEM should have spent more time with finding the people they could count on, rather than finding people they can hire as soon as possible. At the initial stage of the interviews, they shouldn't have let anyone else do them besides the HR department, and after they screened out the best applicants, then could the head of other departments interview the applicant.

The line workers ought to have been interviewed and hired in groups from the beginning, saving time and therefore money to the company. They should have gone through a screening for monotony tolerance, as that is one of the main reasons of quitting among the line workers, and a screening for neat-handedness, which is important for the assembling skill.

What they failed to realise was that their key employees are not the line workers; although literary they are the ones “producing the profit”. But it is easy and cheap to replace them. Technicians, engineers and a good office staff on the other hand are essential so that the production can go on smoothly. The company discriminated the office staff by saying, that they are doing only a sort of secondary work. In the earlier times they did not get paid for overtime and did not get bonus for not being on sick leave like the production workers did. Replacing an electrical engineer, especially with experience in electronic parts production costs much more, than trying to retain the current ones. But the turnover rate among engineers was almost 70% in the company.

In terms of training, I think the amount of money they spent on the international training is way too high, and could have been easily reduced with some basic changes.

Peter Capelli talks about cooperating with competitors in his article on the market-driven approach of retaining talent.⁸ The main idea of it is to “rent out” employees to other firms who have a big ongoing project instead of lay-offs, when the firm has overcapacity. It saves money for both companies, as they do not have to lay-off their employees, and hire new ones when a bigger job hits in.

This idea can easily be adjusted for Samsung. Instead of sending 120 – 130 employees overseas for training, they could have borrowed employees of these affiliates, and have them train the new employees at the new factory.

⁸ HBR January-February 2000, A Market-Driven Approach to Retaining Talent – P. Capelli

Samsung's main reason behind sending the employees aboard, was that by the time the factory was ready, and the assembly lines were installed, the trained employees knew how to operate the machines, and they could teach it to the others.

However, by training the employees in the new factory and maybe starting production a month or 8-9 weeks later, and paying the trip for only a couple of trainers, costs significantly less than the loss of the time in the production. After all, the overseas training for only one employee cost more than \$1000, not to mention the two months salary paid for nothing, as the employees had no work at all from 2001 January to March. Moreover as the affiliates are part of one company, they wouldn't have charged that high for "renting" their employees out for another affiliate.

To sum up, a company has to start retaining its employees at the recruiting process. The reputation of Samsung was hurt when the employees felt a kind of anarchy ruling in the company. Apparently they left as soon as they could, and they spread their opinion about the company to all their friends and relatives. A little bit better information flow and this would have never happened. By starting to retain the employees from the very first moment they enter, a company can create a strong company culture, which will be its most valuable asset over time.

Samsung obviously did not think HR was important, and now they are behind schedule with realising their plans and long term goals. And with a \$26 million investment, which cannot be sold easily if things go wrong.

Still, SHEM has a very big potential in becoming one of Hungary's most trusted and biggest companies with time, if they understand the prospective in their own employees. After all, the future is uncertain, but one definitely should not lose the great chances he or she already has, since a well-educated labour force will provide a competitive edge in the age of globalisation, and investing in human capital emerges as the most reasonable longer-term strategy to foster growth and development.

Despite the practical appeal and theoretical parsimony of a “one-size-fits-all” approach to human resource management, employment modes in most organisations are not this homogenous, and human resource systems are rarely this monolithic. Since, certain forms of capital are more valuable to organisations and more available in the open labour market than others.

Different HR configurations convey different meanings to employees and encourage different behaviours they are unlikely to be appropriate under different employment modes.

Experiences that increase employee tacit knowledge, rather than explicit knowledge that can be transferred to competitors, are above all likely to increase the firm specificity of human capital. The primary determinants of HR architecture are the value and uniqueness of employee skills.

The company has to understand which forms of human capital have the potential to be a source of competitive advantage today and in the future, as well as those that do not. If that potential is identified, developed and deployed strategically, firms may well be able to gain a competitive advantage. In fact, the ability to manage the HR architecture itself may actually become a core capability that other firms find difficult to replicate.

Organisations can leverage existing talents across new business applications, not to mention fostering the creation of such new talents that may prove to be the source of future core competencies.

CONCLUSION

On the one hand, one of the hardest tasks of today's rapidly changing business environment - where competition is global, capital is abundant, people are willing to change jobs often, and ideas are developed quickly and cheaply - is to find the most important factor for success. According to McKinsey & Company, the large global consulting company, superior talent will be tomorrow's prime source of competitive advantage, as we live in a world in which knowledge, rather than physical capital, is increasingly important. "It is the intangibles that are the hardest thing for a competitor to imitate", says Herb Kelleher, CEO of Southwest Airlines that is well known of its success in the crowded and highly competitive industry of air travel.

On the other hand, within the knowledge and skills needed for CEOs in the 21st century⁹, 53 % of today's top management members think that human resource management is a vital skill. It is clear when we look at their ranking that the competitive advantage of a company in the new economy will be something different than production efficiency or even its professionalism in marketing. Strategy and HRM will be the source of differentiation among the competing companies.

Strategy Formulation	78%
Human Resource Management	53%
Marketing and Sales	43%
Negotiation	24%
Accounting and Finance	24%
International Economics and Politics	19%
Science and Technology	15%
Handling Media and Public Speaking	13%
Production	9%
Computer Literacy	7%

⁹ Source: Columbia University Survey of 1,500 Senior Executives in 20 Countries

Still, it is not enough if companies are filled with hard working, motivated, smart people. If the company does not let them shine and does not really capitalise on their talent and motivation, these people will not perform well. Hiring or renting talent itself will not solve the problem of the company if it does not manage them well. This is the problem of SHEM too. They have extraordinary people among their workforce, but the company does not capitalise on them. It values the technology and quality of the production instead.

The secret is in treating employees the way they want to be treated - with dignity, trust and respect - plus they should be engaged by the values and culture of the organisation. Companies should offer their employees more than a job; a sense of community, security, mutual trust and respect.

In order to have a sustainable competitive advantage, companies should align their values, strategies and management practices, and implement these in a way that it can be accepted and 'lived' by their employees. Common mistakes come from the common belief that people are unlikely to spend effort unless they are paid to do so or are supervised closely. When the management closely monitors and controls its employees, they will soon begin to have hard feelings about their lack of autonomy, with time they will lose their motivation and finally they will reduce their effort to work hard. This will lead to tightened controls, more resistance and greater tension.

In most companies, including SHEM, operational and financial data are not shared with employees. Doing this is seen as somehow risking the security of the firm or compromising important information. If employees' intellectual capital is really to be used, they must understand in detail how the firm is doing and what it is trying to do. By sharing this kind of information, the signal from senior management is clear: employees are smart, trustworthy people who have the ability and desire to do the right thing for the company.

No one can be very motivated if they genuinely believe that what they are doing is worthless or violates their fundamental values. Therefore, it is very important that the values of the company should harmonise with the values of its employees. The values also help the organisation to keep focused on its core capabilities and to keep it pointed in the right direction.

Once the values and culture are made clear, the company can design screening processes that help identify people who will fit in and screen out those who do not share these values. Most companies, like SHEM, focus on hiring based on the skills needed for a specific job and do not check how well these people would fit the company. If someone does not fit the culture, either the culture will change, or the person will leave. We could find examples for both in case of SHEM. The original culture of the company has been altered, and a lot of people left too.

People-centred firms make continuous investments in people by providing opportunities for development and career growth. Besides simple skills training, they also use these occasions for socialisation. The message conveyed to all levels of employees through this investment is that each and every employee matters as a person, and that the company is committed to him or her over the long term.

Employees at SHEM did not get a chance for career development, which made them leave and look for career development outside the company.

Contemporaneously, firms that invest in people but do not have systems that encourage long-term employment and career development are unlikely to reap the rewards from their investment. Long-term employment is unlikely to be productive unless people have the information necessary to be productive and the autonomy necessary to act on the information.

In a world where almost all work is knowledge work and intellectual capital is crucial for economic success, it is logical that the ability to attract, retain and use the talents of people provides a competitive edge. For instance, McKinsey's "War for Talent" study surveyed the top 200 executives in a number of companies, asking them why they joined, stayed, or left the company. Of 5679 respondents, 58% cited values and culture as being absolutely essential, 50% cited good management, 38% mentioned the company having exciting challenges, and 56% mentioned freedom and autonomy. Only 23% mentioned high total compensation, and 29% cited differentiated compensation.

It means that if a company wants to tap the intellectual capital of its people, it is useful to tell all of them what the company is trying to do and why. Involvement means giving people real responsibility.

“The third millennium work force is a knowledge-based work force. It emanates from a population that lives longer and demands a higher quality of life than its predecessors. There will be fewer ‘jobs’ and a larger number of people wanting employment. Workers won’t necessarily come to a place of work each day, instead working from home or at a client site, as the project requires the culture of the organisation is different from fifty years ago. It’s changed from being authoritative to participative... in the third millennium company the emphasis is on sharing, encouraging involvement and empowerment, showing an appreciation for individuals’ contributions in the organisation.”¹⁰

¹⁰ Annie Brooking – Intellectual Capital

Human resource management is the future success factor of any organisation, and those who capitalise on it will see the rewards. Companies like Samsung Hungary Electromechanics should pay more attention to their human resource management policies and techniques in order to achieve more in the globalised competition. Their quality will be better and their efficiency will be improved too. As the ingredients of the future products are purchased by, the products themselves are produced by, packed by and sold by people, the employees of the company.

According to the KLI survey results, Korean companies have also realised the importance of HRM and are trying to adapt the new human resource policies since the financial crisis. However, they still seem to be sceptical about the profits of it.

I truly believe, that if Korean companies can defeat this barrier too, they will be the leaders in the business world of the third millennium. They have all the required success factors, including high quality human capital. They only have to learn how to capitalise on it.

REFERENCES

1. **Management Challenges for the 21st Century** –Drucker, P.
2. **Management Consultancy in the 21st Century** –Czerniawska, F.
Chapter 5 – Managing Existing Intellectual Capital
Chapter 9 – The Changing Balance of People and Technology
Chapter 18 – Key Threats and Challenges
Chapter 20 – Recruiting and Retaining People
Chapter 21 – Intellectual Capital
3. **Discontinuous Change Leading Organisational Transformation** –Nadler, D. A.; Shaw, R. B.; Walton, A. E. and Associates
Chapter 9 – Organisational Architecture: Designing for High Performance
Chapter 10 – Transformative Culture: Shaping the Informal Organisation
Chapter 12 – Executive Development: Finding and Growing Champions of Change
4. **Human Factors in Organisational Design and Management – IV Development, Introduction and Use of New Technology – Challenges for Human Organisation and Human Resource Development in a Changing World**
Proceedings of the Fourth International Symposium on Human Factors in Organisational Design and Management held in Stockholm, Sweden, May 29-June 2, 1994
- Human Factors in Office Design – Employee Expectations and Future Trends – W. Bauer and P. Kern (p.67)
- Productive Environment Requirements for Knowledge Workers – C. Clipson and K. West (p.281)
- Construction of Human Being Environment – A.P. Repeko (p. 549)
- Overcoming Cultural Barriers within Organisations – A.S. Imada (p.625)
- Managing Human Factor Issues in Future Organisations – H. Shahnavaaz (p.625)
- A Comparative Study of Technological Stress in the Workplace (p.739)
5. **Management** – Griffin (Sixth Edition)
Part II - Management Infotech
Part III – Working with Diversity
Hiring High-Risk Employees Can Pay (p 118)
Language Barriers in the Workplace (p 179)
Too Little Diversity? (p 238)
Organizing Low-Paid Workers (p534)
Part IV – Today's Management Issues
The Dilemma of Older Workers (p 176)
The Individual or the Team? (p 372)
To Empower or Not to Empower (p 501)
Golden Parachutes or Golden Eggs? (p 516)
6. **Capitalizing on the Global Workforce: A Strategic Guide to Expatriate Management** –Shcell, M. S.; Solomon, C. M
Part I – Capitalizing on Global Business Opportunities: The Critical Role People Play (p. 3)
Chapter 11 – HRM in the Next Century (p. 239)
7. **HRM Critical Perspectives on Business and Management** – Edited by Poole, M.
Volume III – Emergent HRM Issues for the New Millennium
8. **Human Resource Led Development? Review of Issues and Evidence**–Behrman,J.R.
1.5 Some Characterizations of HR Led Development (p.36)
9. **The Strategic Management of Intellectual Capital** – Klein, D. A.
Part II Chapter 7 – Managing Professional Intellect: Making the Most of the Best
Part III Chapter 9 – Understanding Organisations as Learning Systems
Part III Chapter 10 – Rebuilding Behavioural Context: A Blueprint for Corporate Renewal
Part IV Chapter 11 – Knowledge and Competence as Strategic Assets
10. **HRM Gaining a Competitive Advantage** – Noe, Hollenbeck, Gerhart, Wright
Chapter 3 - Managing the Internal and External Environments – Global Issues in HRM (p.71)
Chapter 9 – HR Planning

11. **HRM – Global Strategies for Managing a Diverse Work Force** –Carrell, M. R.; Elbert, N. F.; Hatfield, B. D.
Part I – Environment of HR
Part IV – Retaining HR
12. **Effects of human resource systems on manufacturing performance and turnover**
- Arthur, J. B. – 1994 Academy of Management Journal (37:670-687)
13. **Firm resources and sustained competitive advantage** – Barney J. – Journal of Management 1991 (17: 99-129)
14. **Human Resource Management** - Carrell, Elbert, Hatfield; Prentice Hall 1995
15. **Managing People and Organisations** – Gabarro, J.; HBS management series 1992
16. **Cultural Acumen for the Global Manager: Lessons from Project GLOBE** –Javidan, M.; House, R. J.; Organisational Dynamics, Vol. 29, No.4, pp.289-305, 2001
17. **A Market-Driven Approach to Retaining Talent** –Capelli, P.; Harvard Business Review, Issue: January-February 2000, pp.103-111
18. **Are Career Jobs Headed for Extinction?** –Jacoby, S. M.; California Management Review, Vol. 42, No. I, Fall 1999, pp.123-145
19. **Career Jobs are Dead** – Capelli, P.; California Management Review, Vol. 42, No. I, Fall 1999, pp.146-167
20. **International business, environments and operations** - Daniels & Radebaugh
21. **The impact of human resource management practices on perceptions of organisational performance** – Delany, J.T. & Huselid, M.A. – Academy of Management Journal – 1996 (39: 949-969)
22. **Improving labour productivity: Human resource management policies do matter**
– Koch, M. J. & McGrath, R. G. – Strategic Management Journal 1996 (17: 335-354)
23. **Competitive advantage: Creating and sustaining superior performance** – Porter, M. – 1985 New York: Free Press
24. **Integrated manufacturing and human resource management: A human capital perspective** – Snell, S. A. & Dean, J. W. – Academy of Management Journal 1992 (35: 467-504)

TABLES AND FIGURES

QUESTIONNAIR

1. Overall, how satisfied are you with your job?

A.	B.	C.	D.	E.
DISSATISFIED	SOMEWHAT DISSATISFIED	NEITHER SATISFIED NOR DISSATISFIED	SATISFIED	VERY SATISFIED

2. Compared to your previous job, how would you describe your current job?

A.	B.	C.	D.	E.
MUCH WORSE	WORSE	NEITHER BETTER NOR WORSE	BETTER	MUCH BETTER

3. The company leadership has made changes, which are positive for you.

A.	B.	C.	D.	E.
STRONGLY DISAGREE	SOMEWHAT DISAGREE	NEITHER DISAGREE NOR AGREE	AGREE	STRONGLY AGREE

Are you...

A.	B.	C.	D.	E.
DISSATISFIED	SOMEWHAT DISSATISFIED	NEITHER SATISFIED NOR DISSATISFIED	SATISFIED	VERY SATISFIED

4. with your direct supervisor

5. that your supervisor keeps you well informed about what's going on in the company

6. that your views and participation are valued?

7. that your supervisor cares about and is responding to the issues of most importance to you?

8. with your own morale

9. with the morale of the people with whom you work

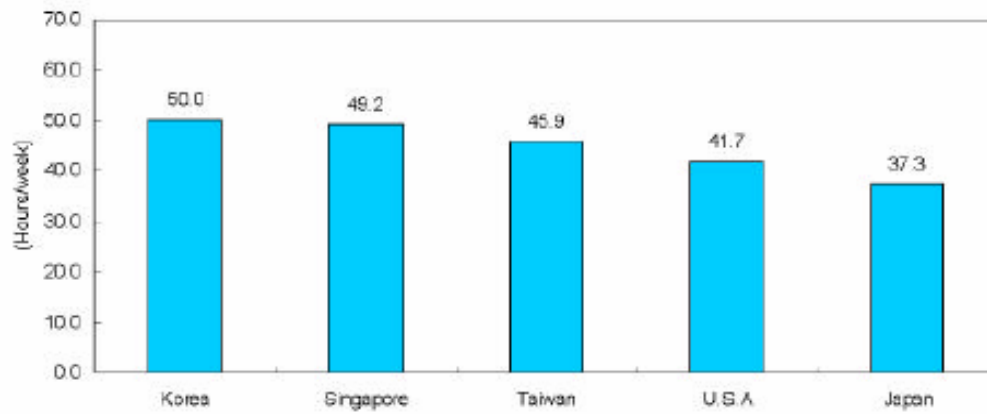
10. with the team spirit in your work environment
11. with the professionalism of the people with whom you work
12. that you receive appropriate recognition for your contributions
13. with the empowerment you have to influence the quality of your work
14. with the reasonableness of your work responsibilities
15. with your ability to maintain a reasonable balance between your family life and your work life
16. that your compensation matches your responsibilities
17. with your overall job security
18. with the amount and frequency of informal praise and appreciation you receive from your supervisors

19. What is the best thing about working for this company?

20. What bothers you most about working for this company?

T

<VI4> Average Weekly Working Hours in Manufacturing in Major Countries(1999)



Source: ILO, Yearbook of Labour Statistics, 2000

TABLE 2.6
**Competing in global markets: the 30
leading exporters of high-tech products**

Rank	Country or area	Billions of US dollars, 1998–99	Index (1990=100)
1	United States	206	250
2	Japan	126	196
3	Germany	95	206
4	United Kingdom	77	255
5	Singapore	66	420
6	France	65	248
7	Korea, Rep. of	48	428
8	Netherlands	45	310
9	Malaysia	44	685
10	China	40	1,465
11	Mexico	38	3,846
12	Ireland	29	535
13	Canada	26	297
14	Italy	25	177
15	Sweden	22	314
16	Switzerland	21	231
17	Belgium	19	296
18	Thailand	17	591
19	Spain	11	289
20	Finland	11	512
21	Denmark	9	261
22	Philippines	9	1,561
23	Israel	7	459
24	Austria	7	172
25	Hungary	6	..
26	Hong Kong, China (SAR)	5	111
27	Brazil	4	364
28	Indonesia	3	1,811
29	Czech Republic	3	..
30	Costa Rica	3	7,324

Source: Human Development Report Office; calculations based on data from UN 2000 and 2001 surveys